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SUBJECT: ITALIAN RESPONSE TO ENERGY SUPPLY DISRUPTIONS

REF: STATE 163206

Introduction and Summary

1. (SBU) ECMIN and Econoff met September 9 with Director General for Energy and Mineral Resources, Sergio Garribba, of the Ministry of Productive Activities (MPA) on Hurricane Katrina's impact on energy supplies. The discussion centered on the international response to energy supply disruptions, and possible lessons learned from the International Energy Agency (IEA) response. Garribba also spoke about the difficulty in passing effective energy legislation and offered his views on the U.S. energy law recently enacted. End Introduction and Summary.

International Response to Energy Supply Disruptions

2. (SBU) ECMIN thanked Garribba for Italy's support of the IEA energy supply response in the aftermath of Hurricane Katrina, specifically, the GOI's immediate and strong endorsement of collective action to make available crude oil and refined products in response to supply disruptions.

Preliminary Lessons Learned

3. (SBU) Garribba said that the Hurricane Katrina supply disruption was "unprecedented," a "test case," and that there would be valuable lessons learned as a result. On a preliminary basis, he thought that the IEA response has been "overly cautious," but that the greater risk had been not to act. He also thought that the IEA response system might not have had the flexibility needed to double or triple the release of energy reserves over fifteen days following the hurricane. Garribba recalled that the Gulf War had been the first large world event affecting the oil market after the creation of the IEA. At that time, the IEA had taken no action.

4. (SBU) With respect to Italy's national response to Katrina, Garribba thought there was room for improvement. He said that the Italian Council of Ministers' September 9 decision to release oil reserves had been made expeditiously, but it had taken a week to implement that decision--far too long, in Garribba's view.

5. (SBU) With respect to other EU member states, Garribba said that the European Union and the IEA needed to further harmonize their rules and procedures regarding reserves and distribution. Many IEA members have little or no reserves to offer the IEA, and Garribba wondered whether it would be better for members who do, to offer those reserves immediately and unilaterally during an emergency.

6. (SBU) ECMIN then asked for Garribba's views on the likely impact of several weeks of continued disruption in the U.S. market. Garribba said supply conditions would probably be difficult with the onset of winter in the northern hemisphere, and that there would probably be continued pressure as demand increases. He said that while the IEA should not talk about prices, overall, it would be best for the market if prices were kept low.

7. (SBU) In this context, Garribba thought that the IEA should extend its market intervention for at least an additional thirty days, if not longer.

Recent U.S. and Italian Energy Legislation

8. (SBU) Regarding the U.S. energy bill passed in August, Garribba widened his comments to include other countries' experiences with trying to enact comprehensive energy reform legislation. He said that it was very difficult to pass good, coherent legislation on energy because of the

inevitable pressure for a plethora of amendments responding to constituent and lobby interests. Germany, for example, had experienced enormous difficulties, and the just-passed Italian energy bill had over seven hundred amendments. This

process in a parliamentary democracy usually leads to so many conflicting interests that in the end there is no clear policy direction, in Garribba's view. He said that he was not satisfied with the Italian energy reform law, and that, overall, the U.S. Congress had done a better job at producing coherent legislation than had the Italian parliament. Given this dynamic, Garribba stated that in the future he would press for changes to Italy's energy framework through executive decrees, rather than parliamentary legislation.

Comment

19. (SBU) Garriba is a knowledgeable interlocutor whose views on how the IEA should respond to Katrina-related events in world markets are broadly supportive of U.S. policy. We believe we can continue to count on him as a helpful voice if further IEA actions are required in the weeks and months ahead. End comment.

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